



Comparison of Changes to Estimates

The following tables compare the April OBPP estimate to the estimate adopted in SJ2, and the April OBPP to the proposed revisions in SJ 27:

	Actual FY 2012	Forecast FY 2013	Forecast FY 2014	Forecast FY 2015	3 Year Total
April OBPP	1,870.95	2,033.52	2,083.66	2,175.73	6,292.91
SJ 2 Adopted	1,870.95	1,994.95	2,056.25	2,137.41	6,188.61
Change	-	38.57	27.41	38.32	104.30

	Actual FY 2012	Forecast FY 2013	Forecast FY 2014	Forecast FY 2015	3 Year Total
April OBPP	1,870.95	2,033.52	2,083.66	2,175.73	6,292.91
SJ 27 Revisions	1,870.95	2,017.78	2,066.53	2,153.18	6,237.50
Change	-	15.74	17.13	22.55	55.42

YTD Extrapolation

Following is the range of estimates based on a 12 year collection patterned YTD extrapolation methodology:

GF Total Revenue	
YTD Extrapolation Ranges Through March	
Low	1,873,926,632
Median	2,020,379,821
High	2,111,725,377

Specific Considerations by Tax Type

Corporation License Tax

- Continued conservative estimates.
 - Incorporates the IHS March pessimistic estimate of U.S. Corporation before-tax profits.
 - The pessimistic estimate is used with new effective bonus depreciation rates for FY 2013 and FY 2014. The IHS pessimistic and optimistic series are after-tax profits – OBPP simulates the before-tax series for the scenarios by calculating the “implicit tax” factors from the baseline scenario (i.e. the difference in the baseline before and after tax series).
 - The Joint Committee on Taxation on February 1 released estimates of Federal Tax expenditures – these changes indicate even higher state tax collections.
- Current reports show sustained corporate profits - year-to-date collections confirm that OBPP’s November and January Corporation License Tax estimates were reasonable but low.
 - Second Fiscal Quarter corporation tax collections are generally much lower than first quarter collections, except in years of rapidly accelerating corporation license tax collections. FY 2013 2nd Quarter Corp tax collections are essentially equal to (already high) first quarter collections tax.
 - In the fourth quarter, the state generally receives 80% of what was collected in the prior three quarters of the fiscal year – if that pattern were to hold, the state should expect to collect \$187 million. If you took the lowest share since FY 2001 (FY 03) it would point to \$159 million in FY 2013 collections (see following table).

Corp Tax Total Revenue	
YTD Extrapolation Ranges Through March	
Low	159,144,992
Median	187,224,065
High	215,195,883

- **Potential concerns about the higher FY 2014 and FY 2015 estimates should be considered relative to record profits at sustained high levels, future expiration of bonus depreciation, and collections that lag real activity.**
 - The current level of profits are well above the levels seen before our previous peak collections in FY 2006-FY 2009.
 - Recognize the lagged nature of collections – collections are paid based on the activity one, two, and even three years prior to the current year. Profits grew rapidly since the trough in FY 2010. Troughs are due in part to claw backs of prior year taxes paid and claiming of net operating losses (firms can amend taxes back three years and carry net operating losses forward up to seven years). Sustained high profits means that the likelihood that firms have large net operating losses on the books is low.
 - The use of bonus depreciation available to firms since CY 2008 means that firms have less depreciation allowance available to them to reduce taxable profits going forward.

Individual Income Tax

- **New data with revisions forthcoming in April may be significant for Individual Income tax estimates.**
 - New BEA estimates of State personal income (released March 27th) include factors for special dividends, and will be used to update the core data for state level personal income projections. These should be incorporated into the April IHS Forecasts for Montana (as highlighted during the Joint House Senate Taxation Committee meeting in January).
 - New BEA corporation profit estimates for Q4 2012 (released March 28, 2013) include estimates of special dividends – which do not affect corporate profits, but do raise personal income.
 - Both the LFD and OBPP appear to have taken a conservative approach to the surge in year-end receipts. OBPP has made only a small adjustment for an April (or October) surprise, thereby leaving the likelihood of even more additional revenue on the table.
- **Based on full year withholding trends and year-to-date tax processing, individual income tax collections are likely understated.**
 - Withholding, even prior to December was sustaining a healthy rate of growth – refunds have not differed significantly from TY 2011 tax processing.
 - Increased estimated payments have not led to increased tax season refunds.

Oil and Gas Tax

- **Slight increase in estimate compared to earlier estimates driven by changes in price, production and average tax rate.**
 - Substantial average price increase for MT oil (\$79.45/bbl v. \$77.84).
 - Increased production for oil due to YTD production data and incorporating more time periods into the regression analysis (6.68 million bbls/quarter v. 6.35).
 - Decreased average tax rate to account for current and historical trends, and new “holiday” production (averaged to 9.31% v. constant 9.62%).
 - Rig counts are declining, but there is little identifiable statistical relationship between rig counts and production using econometric techniques (meaning rig counts can hit zero and we’ll still have production).

Looking Forward

IHS, BEA and BLS Data Releases and Interaction with Legislative Schedule					
IHS National Data Release		Major New Data (BEA, BLS, SABHRS)	Anticipated IHS State Data Release	Potential Impact on Revenue Estimate	Date of Legislative Significance
March	7-Mar-12	February Collections; Gross Domestic Product, Q4 and annual 2012 (second estimate)	Mid-March	Minor	March 20 (Day 60) Transmittal of HJR 2; April 5 (Day 71), Transmittal of Revenue Bills
April	8-Apr-12	March 18, State Employment Benchmark January & February; State Quarterly Personal Income, Q1 2009- Q4 2012; State Annual Personal Income, 2012 (preliminary) ; GDP Q4 & annual 2012 (third estimate); Corporate Profits, Q4 and annual 2012. March Collections.	Mid-April	Most Significant	April 18 (Day 82), Transmittal of amended Revenue Bills (including HJR2); Sat April 27 90th Legislative Day
May	6-May-12	April collections including PIT taxes with returns, and refunds. Advance Gross Domestic Product by Industry, 2012; GDP Q1 2013 (advance estimate)	Mid-May	Major	Legislature has adjourned